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March 26, 2009

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Advanced Notice of Proposed Rulemaking to 12 CFR Part 704

Dear Ms. Rupp:

I would like to take this opportunity to comment on the recently issued Advance Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704.

For many years, corporate credit unions have been an integral part of the credit union system. We depend on the corporate network to provide us with a wide variety of services ranging from liquidity and short term investments, to a wide variety of payment systems alternatives. As the corporate CU system is restructured, and we believe it needs to be, we want that to be done in such a fashion as to allow us to continue to have access to these vital correspondent services.

Our Basic Premise's

One of the primary underlying questions that is alluded to in the ANPR is, how many corporates should there be? We believe there should be only one. We further believe that it would be advisable for the board to consider moving the payment systems and related products and service operations into a CUSO that would be managed by the corporate, but capitalized separately with direct CUSO stock ownership by the natural person users of those products and services. Having a single corporate CU and a single operations entity, would eliminate all the duplicated overhead, cost and effort that exists in the current system of 28 corporates, and thereby maximize the value added potential of the corporate to its natural person credit union members. It would also afford the corporate to take advantage of the best resources available in the current system going forward, and minimize the pure amount of capital needed to adequately capitalize the surviving entity.

We further believe that the membership shares and PIC that exists in the system today, should be retained by the resulting corporate CU as Tier One capital. This would enhance the concentration level of Tier 1 capital at the corporate CU, by spinning off the payment systems operations, and injecting added capital into the payment systems CUSO. We also believe very strongly that the time has come for the regulator to seek statutory capital modernization authority for both the corporate credit union, and for natural person credit unions as well. We believe such action is long overdue, and that this issue warrants serious study and agency support going forward. We believe that the agency must seek statutory changes that would allow NCUA to implement a risk-based capital system for all credit unions, which would bring capital standards for credit unions more in line with other federally insured financial institutions. In our view, the current capital system for corporates is insensitive to the underlying risks and fails to properly align capital retention at the corporate with the risk being assumed by each individual corporate credit union. Clearly, if never more evident than today, changes in the current capital structure for all credit unions are absolutely necessary. Corporate capital requirements should be based upon appropriately weighted risk. While the capital requirements set forth in the international Basel accords may not be specifically tailored for the corporate credit union model, we strongly believe that the stated principles and objectives of Basel to create uniformity and a set of best practices in risk management

provides an excellent framework for NCUA to consider as it evaluates the potentiality of a risk based capital system for the single corporate credit union that we believe should result from this evaluation.

We applaud the board for having the foresight to inject a deposit guaranty on natural person CU deposits. However, we totally disagree with the funding process being used that requires that those funds be expensed, especially when the guaranty has a built in sunset date. We believe that in the future, the natural person CU deposit guaranty reserve fund should be funded by the corporate, which would be consistent with the manner in which natural person credit unions reserve for the deposit insurance for their members.

Lastly, we believe that it is incumbent on the FASB to separate credit value fluctuations and fair market value fluctuations within the context of FASB 157. We believe that credit value fluctuations should be reflected in the income statements of each entity, but that market value fluctuations should be reflected as footnotes to the financial statements of each entity. We have already commented to the FASB in this regard. We also feel that if these changes are made by the FASB, that the NCUA should immediately order all corporate CUs, including those in conservatorship, to reverse all market value fluctuation adjustments through their income statements, and post all credit value fluctuations to their income statements instead. We believe that this will have a significantly positive impact on the current system, and afford the agency the time and resources needed to effectively complete the restructure of the corporate system.

The balance of this comment letter is intended to specifically address the elements contained the ANPR, as follows:

Liquidity

It is our view that liquidity and investment services should be considered a core service of the corporate credit union. Furthermore, the realities of today's marketplace shows clearly that liquidity should not be considered the only valuable service provided by corporate credit unions. In our view, the long term ability of a corporate to meet the liquidity needs of its member credit unions is directly related to its ability to remain relevant and competitive in a dynamic financial marketplace. Therefore, we would urge the agency to preserve the ability of corporate credit union to safely offer multiple liquidity and investment products and service offerings to natural person credit unions.

Field of Membership Issues

The ANPR suggests a premise that the current financial state of the corporate credit union system is, in part, a result of NCUA's longstanding policy of allowing corporate credit unions to have national fields of membership. We strongly disagree. We believe that the current state of affairs is directly related to the rules and regulations relative to permissible corporate CU investments, and their almost exclusive reliance on rating agency information and interest rate risk analysis, with little regard to credit risk factors. Couple that with a totally dysfunctional securities market, and the totally unreasonable disregard that FASB 157 places on "fair value" determinations in a dysfunctional market, and you end up in the state that we find ourselves in today. As stated above, we believe that fluctuations in actual credit risk valuation factors should determine actual income statement charges, while market value fluctuations should be required to be disclosed as footnotes to financial statements.

Expanded Investment Authority

The ANPR questions whether the option for corporates to engage in expanded investment authority should continue in light of the current economic and investment crisis. We believe that the question is not whether the expanded authority option should be eliminated, but rather why it should not be expanded to include every alternative that is available to them in an effort to mitigate all investment risk factors. Now is not the time to limit that risk mitigation authority, but to expand it in an effort to prevent similar issues from resurfacing in the long run. The ANPR also asks whether corporate credit unions should be required to re-qualify for expanded authorities on a periodic basis. Again, we believe that the corporate CU system should be reduced to a single entity, which would also make this action mute.

Structure: 2-Tiered System

In recent months there has been much discussion as to whether a 2-tier system within the corporate CU system is even necessary. Others have questioned whether there are too many retail corporate credit unions. We believe that while the 2-tier system had a viable and necessary purpose when the corporate CU system was born and raised, it has outlived its usefulness. We believe that a single corporate CU, with the best minds involved, and with the full gambit of risk mitigation authority at their disposal, would be in the best position to provide liquidity and investment products and services to natural person CUs.

Corporate Capital

We are pleased that the ANPR contemplates the revision of various definitions and standards for determining appropriate capital requirements for corporate credit unions. As stated above, we believe that capital modernization requirements are essential for both the corporate CU, and for natural person credit unions as well. We would urge the agency to give this matter its full support going forward.

Permissible Investments

The ANPR states that NCUA is considering whether corporate investment authorities should be constrained or restricted. Specifically, the ANPR questions whether a corporate CU's investment powers should be limited to that of a natural person credit union. As we have previously stated in this comment letter, we believe it would be misguided to take such an approach with regard to the investment powers of the single corporate CU. In fact, to limit a corporate credit union to the same investment powers available to natural person credit unions would significantly hamper the ability of a corporate to add value to its natural person credit union members, and would be counter productive to objectives being considered. We believe that the single corporate CU should have every piece of investment authority available to them in an effort to maximize its ability to mitigate risk.

Credit Risk Management

For the last several years significant emphasis has been placed on the management of interest rate risk. While we would agree that this is an integral part of investment portfolio management, we would suggest that the nearly exclusive reliance on interest rate risk mitigation and rating agency input has unintentionally resulted in the lack of sensitivity to the mitigation of credit risk, which was certainly exacerbated by the regulatory reliance on credit ratings for investments. It is important that all levels of risk in a portfolio be diligently managed and mitigated to every extent possible. To that end, any regulatory approach aimed at mitigating risk should not be myopic in its focus and should focus on all aspects of risk. We are not implying that the ratings provided by Nationally Recognized Statistical Rating Organizations should be disregarded, but rather fine tuned such that more than one rating on a securitized investment is obtained, and blended into overall investment decisions as a relevant piece of a much more complex decision making process.

Asset Liability Management

The widening of credit spreads has caused the agency to contemplate whether it should again implement a previous requirement that corporate credit unions perform net interest income modeling and stress testing. We believe that asset liability management is an integral component of effective risk management, however it is essential that *all* aspects of risk be properly addressed. Again, we believe that the agency and a single corporate credit union would be well served if ALM best practices were developed that included the recommendation of modeling and stress testing for net interest income and the testing of credit spread increases.

Corporate Governance

We wholeheartedly agree that the governing board should be made up of only those individuals that possess the knowledge, skills, and expertise to be able to direct the affairs of the corporate credit union. We believe that the implementation of minimum standards for corporate board members should be carefully considered, including the concept of having "outside directors" participate. We would further interject that if the corporate system were reduced to one entity, the likelihood that the corporate CU board makeup would possess the finest talent available would be maximized. We also believe that a complete knowledge base is the most desirable, which is to suggest that investment and finance expertise is important, but not all inclusive. Other factors such as business experience, credit union

knowledge, communication skills, integrity and reputation are equally important, and should not be discounted. We further believe that term limits should be employed by the corporate, so as to foster innovation, creativity, and enhanced oversight among board members and staff. With regard to compensating the directors of the corporate CU, we believe this to be a positive element for the effective recruitment of such a top level board, and believe it should be allowed at the discretion of the corporate board. The ANPR also poses questions regarding the transparency of executive compensation and the ability to have greater access to salary and benefit information for senior management of corporate credit unions. We believe that this type of transparency should never be allowed at either the corporate CU, or at any natural person CU.

We appreciate the opportunity to comment on this advance notice of proposed rulemaking. Recognizing the difficult challenge the agency faces as the safety and soundness regulator for federal credit unions and the insurer of the overwhelming majority of all credit unions, we value your role and public service. Please do not hesitate to contact me if we can be a source of additional information about this comment letter or any other matter.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Randall Glassburn". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

C. Randall Glassburn
President/CEO